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SUBJ: POLISH ECONOMIC PERFORMANCE IN 1977: SLOW IMPROVEMENT IN
HARD-CURRENTY TRADE AND CONTROL OF INCOME EXPANSION

1. SUMMARY: THE REPORT RELEASED ON FEBRUARY 6 BY THE CENTRAL
STATISTICAL OFFICE (GUS) SHOWS THAT POLAND WAS ABLE TO INCREASE
ITS EXPORTS TO THE INDUSTRIALIZED WEST BY ONLY 9.9 PERCENT IN
1977, A DISAPPOINTING DECLINE FROM THE 14.5 PERCENT IMPROVEMENT
REGISTERED IN THE FIRST SIX MONTHS OF LAST YEAR. POLAND MANAGED
TO CUT IMPORTS FROM THE WEST BY 4.3 PERCENT IN VALUE TERMS,
THEREBY REDUCING ITS NON- CEMA TRADE DEFICIT BY ABOUT \$750 MILLION
FROM THE \$3 BILLION DEFICIT REGISTERED IN 1976.

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2. THE CONTINUED UPWARD SPIRAL OF PERSONAL INCOME IN 1977, DESPITE
THE GOP'S PLANS TO LIMIT GROWTH IN WAGES AND PURCHASING POWER,
WAS THE MOST STRIKING REVELATION OF THE GUS REPORT. NOMINAL
"MONEY" INCOME OF THE POPULATION ROSE BY 12.2 PERCENT, NEARLY
DOUBLE THE PLANNED RATE OF 6.3 PERCENT SET FOR 1977. INCREASES
IN PURCHASING POWER THUS OFFSET THE 12.2 PERCENT RISE IN DELIVER-
IES OF GOODS TO THE RETAIL MARKET. ALTHOUGH THE GOP CAN POINT

TO RAPID INCREASES IN PRODUCTION OF SOME CONSUMER GOODS, IT WAS NOT ABLE TO IMPROVE THE OVERALL SUPPLY-DEMAND BALANCE AS FORECAST IN THE "NEW ECONOMIC MANEUVER" ANNOUNCED IN DECEMBER 1976. END SUMMARY.

3. THE ENGLISH TRANSLATION OF THE GUS RELEASE IS CARRIED IN THE FEBRUARY 7, 1978, ISSUE OF THE POLISH NEWS BULLETIN WHICH IS RECEIVED BY WASHINGTON AGENCIES. THE REPORT SHOWS THAT NATIONAL INCOME GREW BY 5.6 PERCENT AS PLANNED. ABOVE-PLAN INCREASES IN INDUSTRIAL OUTPUT (8.6 PERCENT VERSUS A TARGET OF BETWEEN 6.3 AND 7.3 PERCENT) COMPENSATED FOR THE MODEST 0.8 PERCENT RISE IN AGRICULTURE PRODUCTION. THESE HIGH RATES OF INDUSTRIAL PRODUCTION REPRESENTED A MIXED BLESSING, HOWEVER, SINCE THEY RESTRICTED THE GOP'S ABILITY TO CUT BACK ON IMPORTS OF INDUSTRIAL GOODS.

4. THE GUS PRESS RELEASE AND ACCOMPANYING ARTICLES DO NOT ATTEMPT TO EXPLAIN THE DISAPPOINTING RESULTS ACHIEVED IN HARD CURRENCY EXPORTS DURING THE LAST HALF OF 1977. THE YEARLY INCREASE IN EXPORTS TO INDUSTRIALIZED COUNTRIES WAS ONLY 9.9 PERCENT, DOWN FROM THE 14.5 PERCENT GROWTH RATE RECORDED IN THE FIRST HALF OF THE YEAR. SLOW GROWTH AND UNFAVORABLE PRICE MOVEMENTS IN WESTERN ECONOMIES MAY, AS THE ARTICLES MAINTAIN, EXPLAIN THE BELOW-PLAN RATES OF GROWTH, BUT THEY DO NOT EXPLAIN THE MARKED FALL IN RESULTS FROM JULY THROUGH DECEMBER. THE GOP WAS ABLE TO REDUCE IMPORTS FROM THE WEST BY 4.3 PERCENT IN NOMINAL TERMS, AND POLAND'S NON-CEMA MERCHANDISE DEFICIT WAS LIMITED OFFICIAL USE

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THEREFORE ABOUT \$750 MILLION BELOW THE \$3.0 BILLION LEVEL RECORDED IN 1976. CHANGES IN TRADE WITH LDC'S WOULD NEED TO BE INCLUDED TO ARRIVE AT A FINAL TRADE DEFICIT FIGURE.

5. POLISH EXPORTS TO CEMA COUNTRIES GREW BY 12.2 PERCENT, WHILE ITS IMPORTS FROM THIS TRADING BLOC ROSE BY 16.4 PERCENT.

6. THE 12.2 PERCENT RISE IN NOMINAL "MONETARY" PERSONAL INCOME IS THE MOST INTERESTING FIGURE IN THE GUS REPORT. THE 1977 PLAN CALLED FOR PERSONAL INCOME TO GROW BY ONLY 6.3 PERCENT. ACTUAL INCOME GROWTH EXCEEDED PLANNED RATES OF INCREASE IN ALL INCOME CATEGORIES. A HIGHER RATE OF INFLATION (4.7 PERCENT, RATHER THAN THE 2 PERCENT ASSUMED IN THE 1977 PLAN) ACCOUNTS FOR SOME OF THE DIFFERENCE. AVERAGE WAGES IN THE SOCIALIZED SECTOR WERE UP BY 8.0 PERCENT, VERSUS A PLANNED 4.0 PERCENT. MORE STRIKING WAS THE 22.8 PERCENT JUMP IN PENSION PAYMENTS, COMPARED WITH A PLANNED INCREASE OF 15.7 PERCENT.

7. ALTHOUGH THE GOP CAN POINT TO RAPID INCREASES IN DELIVERIES OF SOME CONSUMER GOODS (30 PERCENT AND 20 PERCENT IN THE CASE OF CARS AND FURNITURE, RESPECTIVELY), NO IMPROVEMENT WAS REGISTERED

IN THE AGGREGATE SUPPLY-DEMAND EQUATION. INCREASED DELIVER-
IES OF 12.2 PERCENT WERE COMPLETELY OFFSET BY PUMPED-UP PURCHASING
POWER AS DESCRIBED ABOVE.

8. THE GUS REPORT ALSO PROVIDED THE FIRST ESTIMATES ON 1977
GRAIN AND AGRICULTURAL PRODUCTION WHICH WE HAVE SEEN. THE REPORT
STATES THAT PRODUCTION OF RYE, WHEAT, BARLEY, AND OATS WAS ONLY
17.5 MILLION TONS. (COMMENT: BY ADDING A CORRESPONDING YIELD
FOR THE CATEGORY OF "MIXED GRAINS", ONE WOULD OBTAIN AN ESTIMATE
OF TOTAL GRAIN PRODUCTION.) "MIXED GRAIN" PRODUCTION USUALLY
RUNS ABOUT 1 MILLION TONS PER YEAR. END COMMENT)
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